

**FAQs on Recommendations by Vice Chairman Hoenig  
for Regulatory Relief for Traditional Banks**

**Q1: What criteria do you recommend for banks to be eligible for regulatory relief?**

A1: Banks that emphasize the core commercial banking model and have strong equity capital, defined specifically as banks that:

- hold no trading assets or liabilities;
- hold no derivative positions other than interest rate and foreign exchange derivatives;
- have a total notional value of all their derivatives exposures - including cleared and non-cleared derivatives – that is less than \$3 billion; and
- maintain a ratio of Generally Accepted Accounting Principles equity-to-assets of at least 10%

**Q2: What is the size threshold for banks to be eligible for regulatory relief under Hoenig's plan?**

A2: Size does not limit eligibility for regulatory relief using the metric outlined above because it is defined based on activity rather than asset size. A bank of any size that meets the criteria would be eligible for regulatory relief.

**Q3: What banks currently are eligible?**

A3: More than 90 percent of the approximately 6,400 commercial banks in the US meet the first three criteria, and two-thirds of them meet the fourth criterion regarding capital. The remaining one-third of these banks are within two percentage points of the capital requirement and could be afforded relief as they achieve this objective over a 24-month phase-in period. Among banks that would qualify are 18 regional banks - one with assets exceeding \$104 billion. Given meaningful regulatory relief, many other regional banks, which are already close to meeting these thresholds, could choose to follow suit.

**Q4: What specific relief do you recommend for eligible banks?**

A4:

- Exempting these more traditional banks from all Basel capital standards and associated risk-weighted asset calculations.

- Exempting these banks from several entire schedules on the call report.
- Allowing for greater examiner discretion and eliminating requirements to refer "all possible or apparent fair lending violations to Justice" if judged to be minimal or inadvertent.
- Establishing further criteria that would exempt eligible banks from appraisal requirements
- Exempting banks, if applicable, from stress testing requirements.
- Where judged appropriate, allowing for an 18-month examination cycle as opposed to the current required 12-month cycle for traditional banks.
- Mortgages made by these traditional banks that remain in the banks' portfolio would be a qualified mortgage loan for purposes of Dodd-Frank Act.

**Q5: Why do you recommend legislation to ease these requirements, instead of doing it through the regulatory rulemaking process?**

A5: Legislation offers two clear advantages over regulation. First, several of the elements of relief discussed above would require changes to existing laws. For example, the examination cycle, fair-lending referral requirements, stress testing requirements and qualified mortgage requirements are set by existing laws. Changing these requirements would therefore necessitate statutory changes.

Second, while it would be possible to provide some relief from the Basel standards through regulations, such relief would be complicated by existing laws. For example, the Federal Deposit Insurance Act requires capital regulations to include a risk-based requirement and a leverage requirement (see Section 38(c)(1)(A)).<sup>1</sup> Therefore, by regulation alone, it would not be possible to implement capital regulations that consisted only of a simple leverage ratio. Additionally, Section 171 of the Dodd-Frank Act subjects banks of all sizes to “generally applicable” leverage ratio capital requirements. If the simple leverage ratio were deemed to be “generally applicable,” it would not be possible, through regulation alone, to apply such a ratio only to a limited set of banks that met the criteria discussed above.

**Q7: Among your suggestions for regulatory relief is exempting well-capitalized, traditional banks from all Basel capital standards and associated risk-weighted asset calculations. What specifically do these capital requirement exemptions cover?**

A7: Exempting eligible banks from all Basel capital standards would address specific aspects of Basel III including:

- Banks would no longer be required to deduct mortgage service rights from capital.

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<sup>1</sup> <https://www.fdic.gov/regulations/laws/rules/1000-4000.html#fdic1000sec.38c>

- Banks that are registered as S-Corporations would not be subject to capital buffers included in Basel III.
- Banks would not be required to determine specific risk-weights for “high-volatility commercial real estate.”
- Banks would not be subject to numerous methodologies for calculating risk-weights for securitizations products. In addition, this would address certain products (e.g. the FHLB’s MPF program) that are deemed to be securitizations under Basel III.

**Q8: Under such an exemption, would available-for-sale securities be counted as trading assets in the capital calculation?**

A8: AFS securities would not be counted as trading assets. “Trading assets” as reported on the Call Report generally follows the “Held for Trading” designation under US GAAP. In addition, the Call Report instructions for this field specifically state, “Do not include in this item [i.e. trading assets] the carrying value of any available-for-sale securities . . .”

**Q9: Since the deduction of goodwill from the numerator and denominator is not simple GAAP, has any analysis been done on how this would affect community banks that are undertaking acquisitions?**

A9: It is correct that GAAP does not remove goodwill from equity. However, all the necessary amounts (goodwill, total assets and total equity) are GAAP calculations. Our analysis reflects capital levels excluding goodwill, but has not tried to determine the impact on acquisitive banks.

**Q10: If traditional banks are exempted from Basel requirements and measured with a simple leverage ratio as you recommend, what measure would be used in prompt corrective action requirements?**

A10: Legislation implementing the changes to capital requirements that I have suggested would have to include amendments to PCA statutes, as noted above. This is one of several reasons why I am recommending addressing these issues through legislation, as opposed to making the changes through regulation.

**Q11: From which specific schedules on the call report do you recommend giving traditional banks an exemption?**

A11: Schedules RC-D (trading assets and liabilities), parts of RC-L (derivatives) and RC-R (regulatory capital calculations) would serve little or no purpose traditional banks. Other schedules or parts of schedules might also be appropriate for exemptions.